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January 26, 1998

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JAN 26 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Subject: Amendments to Uniform System of  
Accounts for Interconnection  
CC Docket No. 97-212

Dear Mr. Caton:

Enclosed please find the original and eleven copies of the General Services Administration's Reply Comments for filing in the above-referenced proceeding.

Sincerely,

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Enclosures

cc: Matthew Vitale, Accounting and Audits Division (1 copy and diskette)

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BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554

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In the Matter of

Amendments to Uniform System of  
Accounts for Interconnection

CC Docket No. 97-212

REPLY COMMENTS  
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and the  
UNITED STATES DEPARTMENT OF DEFENSE

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January 26, 1998

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### **Summary**

The USOA should be expanded by adding five new accounts to record revenue and expense data concerning interconnected services, unbundled network elements, and resale of local telecommunications services. The additional accounts will allow regulators, competitors and consumers to monitor the progress of incumbent local exchange carriers in opening their local exchanges to meaningful competition.

In addition to the primary accounts, subsidiary records must be maintained to provide disaggregated data. Contrary to the assertions by local exchange carriers, this data is essential to monitor compliance with the Telecommunications Act.

In these Reply Comments, GSA/DOD responds to the claims of parties that these straightforward changes in the Commission's accounting system would be "burdensome" and yield no important information. The local carriers' claims concerning the resources required to meet the minimal additional accounting needs are not well documented. The estimates that have been presented indicate that the likely costs are well justified by the fact that the additional information will facilitate open competition for all local exchange services.

Submissions by two state regulatory bodies demonstrate that the additional accounting burden is likely to be small, and certainly justified by the needs for information that will help protect consumers. As these regulators explain, the accounting changes will help to monitor the development of competition, avoid potential ambiguities, and ensure that regulated services do not bear the costs of competitive activities by incumbent carriers.

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**REPLY COMMENTS  
of the  
GENERAL SERVICES ADMINISTRATION  
and the  
UNITED STATES DEPARTMENT OF DEFENSE**

The General Services Administration and the United States Department of Defense ("GSA/DOD"), on behalf of the customer interests of all Federal Executive Agencies ("FEAs"), submit these Reply Comments in response to the Commission's Notice of Proposed Rulemaking ("NPRM") released on October 7, 1997. In that NPRM, the Commission requested comments and replies on rules governing the accounting treatment of transactions concerning interconnections between carriers and shared telecommunications infrastructure in a competitive environment.

**I. INTRODUCTION**

The Telecommunications Act of 1996<sup>1</sup> has opened the door to major changes in the telecommunications industry, with mandatory interconnection, unbundling and

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<sup>1</sup> Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, amending the Communications Act of 1934, 47 U.S.C. § 151 *et seq.* ("the Telecommunications Act").

resale of local exchange services. In view of these changes, the Commission instituted this proceeding to evaluate the need for corresponding revisions in the Uniform System of Accounts ("USOA") — Part 32 of the Commission's rules. These changes would accommodate several types of revenues and expenses previously not pertinent to local services.

As major end users of local exchange and interexchange telecommunications services, the FEAs are vitally concerned with regulatory policies that ensure efficient and rapid transition to open competition. The Commission's tentative conclusions in the NPRM have convinced GSA/DOD that modifications in the accounting system are needed to facilitate open competition.

On December 10, 1997, GSA/DOD submitted Comments to the Commission addressing the need for modifications in Part 32 of the USOA. Fifteen additional parties also submitted comments in response the NPRM:

- four Regional Bell Operating Companies ("RBOCs");
- seven additional companies, including several additional incumbent local exchange carriers ("ILECs") ;
- two associations of local exchange carriers; and
- two state regulatory agencies.

In these Reply Comments, GSA/DOD responds to positions advanced by these parties.

## **II. FIVE NEW ACCOUNTS ARE NECESSARY TO MONITOR REVENUES AND COSTS.**

### **A. The Part 32 rules must allow the Commission to monitor the development of local competition.**

As described in the NPRM, the Commission has tentatively concluded that the USOA should be expanded to contain five new accounts.<sup>2</sup> These additions include revenue and expense accounts for Interconnection and Access to Unbundled Network Elements, revenue and expense accounts for Transport and Termination of interconnected traffic, and an expense account for costs incurred to procure telecommunications services from other carriers for subsequent resale.<sup>3</sup>

As GSA/DOD explained in their comments, these additional accounts are necessary because local exchange markets now involve interconnected local carriers.<sup>4</sup> Open competition will require that regulators have accurate, timely and reasonably uniform cost data on interconnection and infrastructure sharing. It is important that the information be available in a consistent format so that the Commission can evaluate the growth of competition and the deployment of advanced technologies on a national scale.

Most end users, including experienced business subscribers such as the FEAs, still have few alternative providers for local telecommunications services in most parts of the nation. Consequently, these users must depend on the Commission's oversight to ensure that ratepayers do not bear the costs of funding an incumbent carrier's efforts to expand into non-regulated competitive markets.

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<sup>2</sup> NPRM, paras. 8-13.

<sup>3</sup> *Id.*

<sup>4</sup> Comments of GSA/DOD, pp. 3-6.

**B. Large incumbent local exchange carriers that benefit from the current system are the only parties to claim that additional accounts are unnecessary.**

Among all parties submitting comments, only incumbent local exchange carriers and an association of these firms contend that additional accounts are not required. Ameritech, Bell Atlantic, BellSouth, and SBC Communications, as well as Cincinnati Bell, GTE Service Corporation ("GTE"), the United States Telephone Association ("USTA"), and United Utilities object to the establishment of additional accounts.<sup>5</sup>

The remaining carriers that submitted comments in this proceeding expressed support for several new primary accounts. For example, the National Exchange Carrier Association ("NECA") and the Puerto Rico Telephone Company ("PRTC") agree that these new accounts would be useful.<sup>6</sup> Two large carriers that are seeking to compete in local exchange markets — Cox Communications ("Cox") and MCI Telecommunications — also support addition of the five accounts.<sup>7</sup>

Perhaps most significantly, state regulators with direct responsibilities for the development of open competition in their respective jurisdictions agree that the new accounts should be established. Both the Public Utilities Commission of Ohio ("PUCO") and the Washington Utilities and Transportation Commission ("WUTC") explain that the accounts would provide data for their regulatory activities.<sup>8</sup>

The arguments advanced in opposition to the new accounts fall into two principal groups: (1) additional accounts and associated record-keeping

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<sup>5</sup> Comments of Ameritech, p. 2; Comments of Bell Atlantic, pp. 1-6; Comments of BellSouth, p. 3; Comments of SBC Communications, pp. 2-4; Comments of Cincinnati Bell, pp. 1-2; Comments of GTE, p. 2; Comments of the USTA, p. 2; and Comments of United Utilities, pp. 1-2.

<sup>6</sup> Comments of the NECA, p. 2 and Comments of the PRTC, p. 1.

<sup>7</sup> Comments of Cox, pp. 2-4; and Comments of MCI Telecommunications, p. 2.

<sup>8</sup> Comments of the PUCO, pp. 12-14; and Comments of the WUTC, pp. 1-4.

responsibilities would pose administrative burdens on local carriers; and (2) additional accounts are not necessary, and therefore inconsistent with the deregulatory environment mandated by the Telecommunications Act. GSA/DOD urge the Commission to reject all of these claims.

**C. The Commission should reject claims by incumbent local exchange carriers that a few additional accounts would be burdensome.**

A general argument of carriers opposing the new accounts is that this expansion in the USOA would be "burdensome." For example, GTE asserts that "additional accounts and record-keeping responsibilities would put significant administrative burdens on incumbent local exchange carriers."<sup>9</sup> Ameritech states that while establishing new Part 32 accounts entails no significant burden by itself, the modification of customer billing systems to accommodate the new account structure and subsidiary record keeping requirements is not a "costless exercise."<sup>10</sup>

The claim of unreasonable burden is particularly suspect because the largest carriers — presumably those with the most extensive administrative resources — are those alleging unreasonable work requirements. For example, all of the commenting RBOCs, as well as GTE and USTA, object to the new accounts. In contrast, the smaller carriers, such as PRTC and the firms in the NECA, agree with the Commission's tentative conclusion that additional accounts are beneficial.

Significantly, none of the parties objecting to the additional accounts provided any data to quantify the additional "burden," either at the outset or on a recurring basis. There is an explanation for the lack of support for this claim — virtually no additional work is required. The comments by regulators in Washington state indicate that the

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<sup>9</sup> Comments of GTE, p. 1.

<sup>10</sup> Comments of Ameritech, p. 6.

current internal accounting practices of both US West and GTE will allow these carriers to book expenses and revenues in accounts and subsidiary record keeping categories that are substantially similar to those proposed by the Commission.<sup>11</sup> Similarly, the WUTC staff noted that the accounting manuals, work center systems and other financial and accounting systems maintained by these companies already document established procedures for preserving an audit trail for the allocation and recording of expenses and revenues.<sup>12</sup> Accordingly, the staff concluded that the designation of accounts and subsidiary records will not impose an undue burden on these firms.<sup>13</sup>

**D. Contrary to assertions by incumbent carriers, additional accounting information would help the Commission to comply with the directives of the Telecommunications Act.**

Local exchange carriers disputing the need for additional accounts assert that further surveillance tools are not necessary and, in fact, are contrary to the pro-competitive intent of the Telecommunications Act. For example, USTA contends that the Commission's proposals "weigh heavily in favor of a regulatory regime that impermissibly seeks to regulate the prices for interconnection, unbundling and resale by equating the ILEC's revenues from deploying such services with the regulated cost of these services."<sup>14</sup> Additionally, Cincinnati Bell urges the Commission to employ the account now used to record "Rent Revenue" for booking all revenues associated with

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<sup>11</sup> Comments of the WUTC, p. 4.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

<sup>14</sup> Comments of USTA, p. 5.

interconnections, unbundled network access, resale and transport and termination of interconnected traffic.<sup>15</sup>

If the Commission were to adopt a "hands off" posture and not review accounting data specifically describing interconnection, unbundling and resale activities, as USTA suggests, it would be unable to fulfill the requirements for non-discriminatory and pro-competitive pricing in the Telecommunications Act. The legislation requires interconnection at rates that are just and reasonable,<sup>16</sup> unbundled network elements priced on the basis of costs,<sup>17</sup> and services offered on a wholesale basis at rates reflecting the attendant cost savings.<sup>18</sup>

While the primary standards for evaluating the charges for unbundled network elements and interconnection services are long run incremental costs, not embedded costs collected pursuant to the requirements of the USOA, data on interconnection, unbundled network access, resale, and transport and termination that can be viewed within the USOA structure should be useful to both the Commission and state regulators. In contrast, mixing of revenues from unbundled network access with revenues obtained from leasing office space, as the RBOCs, GTE and USTA advocate, would seem to serve no useful purpose at all.

GSA/DOD concur with Cox that the additional accounts will enable interested third parties, including regulators, competitors and consumers, to monitor the ILECs' progress toward opening their local exchanges to meaningful competition.<sup>19</sup>

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<sup>15</sup> Comments of Cincinnati Bell, p. 2.

<sup>16</sup> Telecommunications Act, § 251 (c)(2).

<sup>17</sup> *Id.*, § 252 (d)(1).

<sup>18</sup> *Id.*, § 252 (d)(3).

<sup>19</sup> Comments of Cox, p. 2.

Furthermore, as Cox observes, the information is essential to evaluate the ILECs' compliance with the spirit and letter of the Telecommunications Act.<sup>20</sup>

**III. DATA NEEDED TO MONITOR THE DEVELOPMENT OF  
COMPETITION SHOULD BE RETAINED IN SUBSIDIARY  
ACCOUNTS AND SUPPORTING RECORDS.**

**A. Disaggregated accounting data is necessary.**

While only a few additional primary accounts are required, a great deal of important data should be retained in subsidiary accounting records. For example, as GSA/DOD explained in their previous Comments, revenues and expenses associated with interconnection should be distinguished from those associated with the provision of unbundled network elements.<sup>21</sup> Also, revenues and expenses associated with unbundled network elements should be separated by network element, at least for an initial period.

Similarly, supporting data is required for the new revenue and expense accounts associated with Transport and Termination of interconnected traffic.<sup>22</sup> The distinction between these two different functions should be maintained in supporting records, so that the Commission can gauge the extent of the competition for each of these two services.<sup>23</sup>

Finally, as GSA/DOD also explained in its earlier comments, detailed supporting records are necessary to monitor infrastructure sharing.<sup>24</sup> The Commission should not rely on negotiated agreements as the sole basis for monitoring

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<sup>20</sup> *Id.*

<sup>21</sup> Comments of GSA/DOD, pp. 6-7.

<sup>22</sup> *Id.*, p. 7.

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*, pp. 8-9.

infrastructure sharing. Supporting records are essential for the Commission's monitoring activities.<sup>25</sup> The telecommunications infrastructure includes operations support systems ("OSS"), which encompass platforms for ordering, billing and maintaining services. The telecommunications infrastructure also encompasses many additional functions such as directory and information services that new market entrants will not be able to provide themselves. For efficiency, these support services must be shared at the outset. Accounting data will be required for accurate monitoring of sharing between incumbent firms and their competitors.<sup>26</sup>

**B. The Commission should reject carriers' claims that collection and retention of supporting data would be burdensome.**

The local carriers claiming that it would be burdensome to establish the five additional accounts also contend that subsidiary accounts and supporting records would be even more onerous. For example, BellSouth alleges that entering initial data for subsidiary record categories would require "four to six thousand hours of employee time at a cost of up to a half million dollars."<sup>27</sup> Also, BellSouth asserts that it would incur processing costs, as well as costs for maintaining paper and electronic records and expenses associated with audits of these records.<sup>28</sup> Even PRTC, which concurred with the need for the five additional accounts, as noted above, states that subsidiary records should not be required.<sup>29</sup>

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<sup>25</sup> *Id.*

<sup>26</sup> *Id.*, p. 9.

<sup>27</sup> Comments of BellSouth, p. 10.

<sup>28</sup> *Id.*

<sup>29</sup> Comments of PRTC, pp. 3-5.

Cost estimates in the range of a million dollars must command attention, even if not well supported as in this instance. However, it is important to consider the claims in context. BellSouth had \$14.4 billion in revenues from all services in 1996.<sup>30</sup> Even if the costs of the required accounting expenses amount to \$1 million, this cost represents a minuscule 0.006 percent of the company's revenues.

As GSA/DOD and other parties have explained, it will be difficult to track compliance with the Telecommunications Act unless revenue and expense data in primary accounts can be supported by data in subsidiary accounts and by other accounting records.<sup>31</sup> In its comments, Cox explained that aggregating interconnection with access to unbundled network elements, and aggregating transport and termination, "would frustrate quantitative analysis of any one element or functionality."<sup>32</sup> GSA/DOD urge the Commission to reject the claims by incumbent carriers that administrative costs are too high, because even at the level asserted by these carriers, the costs are more than justified by the need for quantitative analysis to help prevent the same carriers from establishing barriers to open competition.

**C. End users and regulators have explained that supporting accounting data and records will prove extremely valuable.**

The WUTC staff notes that as consumers become confronted with an expanding array of telecommunications products and services, it will become more difficult to make informed choices about value and risk.<sup>33</sup> As end users, DOD/GSA concur with this prognosis. Carriers' revenues will be referenced as an indication of their ability

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<sup>30</sup> FCC Industry Analysis Division, Statistics of Common Carriers for the Year Ended December 31, 1996, Table 2.9.

<sup>31</sup> Comments of GSA/DOD, pp. 7-9 and Comments of Cox, p. 7.

<sup>32</sup> Comments of Cox, p. 7.

<sup>33</sup> Comments of WUTC, p. 2.

and willingness to deliver services to their competitors. Carriers' costs will be referenced as an indication of their efficiency. Summary data is not sufficient. As the WUTC staff explains, the two major local exchange carriers under its jurisdiction (US WEST Communications and GTE) record their respective expenses and revenues under the same USOA, although there are important differences in accounting practices at the sub-account level.<sup>34</sup> Data in supporting records will resolve these potential ambiguities.

Furthermore, as the WUTC staff explains, the ILECs will incur various types of costs in the competitive environment.<sup>35</sup> For example, the ILECs will incur costs to provide elements in combinations requested by competing firms. These carriers will also incur costs to provide services to their own end users. Furthermore, the ILECs will incur costs to develop their networks to meet the future demands for services and facilities by other carriers and end users. Accounting records are required to maintain the important distinctions between these efforts. The additional reporting requirements identified in the NPRM will help to ensure that regulated services do not bear the costs of ILECs' competitive activities.

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<sup>34</sup> *Id.*

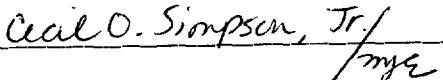
<sup>35</sup> *Id.*, p. 3.

#### IV. CONCLUSION

As major users of telecommunications services, GSA/DOD urge the Commission to implement the recommendations concerning accounts and supporting records described in these Reply Comments.


Respectfully submitted,

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January 26, 1998

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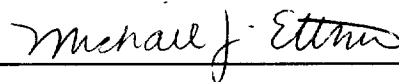
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